

What the Tax Bill Means to America's Families

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of what the tax bill will mean for America's families:

Lower Tax Rates:

- New 10% tax rate applies to the first \$6,000 of income for individuals, \$10,000 for the heads of households, and \$12,000 for couples
- Lowers other individual tax rates as follows:

Present	2001-2003	2004-2005	2006-2010
N/A	10%	10%	10%
15%	15%	15%	15%
28%	27%	26%	25%
31%	30%	29%	28%
36%	35%	34%	33%
39.6%	38.6%	37.6%	35%

Reduced Marriage Penalty:

- Sets the standard deduction for couples at twice the level for individuals – phased in over 5 years beginning in 2005
- Sets the 15% bracket for couples at twice the level for individuals – phased in over 4 years beginning in 2005

Per Child Tax Credit

- Phases in a doubling of the child credit from \$500 per year to \$1,000 per year as follows:

Calendar Year	Credit Amount Per Child
2001-2004	\$600
2005-2008	\$700
2009	\$800
2010	\$1,000

Adoption Tax Benefits:

- Increases the adoption tax credit to \$10,000 per eligible child (includes special needs children)
- Increases the exclusion from income for employer-provided adoption assistance to \$10,000
- Increases the starting point for the phase-out of both provisions to \$150,000 of adjusted gross income



Expanded Educational Opportunities Under the Tax Bill

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of expanded educational opportunities provided under the bill:

Education IRAs:

- Increases the annual limit on contributions to education IRAs from \$500 to \$2,000
- Expands the definition of qualified education expenses to include elementary and secondary school expenses
- Increases the phase-out range for couples to twice the level of single taxpayers
- Clarifies that corporations and other entities may make contributions to education IRAs

Prepaid Tuition Plans & Employer-Provided Assistance:

- Expands the definition of qualified prepaid tuition programs to include programs established by educational entities other than state-sponsored programs
- Allows tax-free distributions from prepaid college tuition plans, provided the funds are used for qualifying education expenses (private plans beginning in 2004)
- Expands the exclusion from income for employer-provided educational assistance to graduate education

Student Loan Interest Deductions:

- Increases the income phase-out range for the student loan interest deduction to \$50,000 - \$65,000 for singles and to \$100,000 - \$130,000 for couples and adjusts for inflation after 2002
- Allows taxpayers to claim the student loan interest deduction for voluntary payments of interest

Education Deduction:

- Permits taxpayers to claim an above-the-line deduction for qualified higher education expenses as follows:

Year	Income Limit	Maximum Deduction
2002-2003	\$65,000 for singles, \$130,000 for couples	\$3,000
2004-2005	\$65,000 for singles, \$130,000 for couples	\$4,000
2004-2005	\$80,000 for singles, \$160,000 for couples	\$2,000
2006	Provision	Repealed



What the Tax Bill Means for Your Local Schools

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of benefits provided in the bill for local school districts:

School Construction:

- Increases from \$5 million to \$10 million the amount of bonds that local governmental units may issue for public schools without being subject to arbitrage rebate requirements
- Expands the private activities for which tax-exempt bonds may be issued to include elementary and secondary public school facilities which are owned by private, for-profit corporations pursuant to public-private partnership agreements with a State or local education agency

What the Tax Bill Means for Small Businesses

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of benefits provided in the bill for small businesses:

Lower Tax Rates:

Since most small businesses pay taxes at the individual income rate, the reduction in marginal tax rates will help small businesses. Specifically the bill:

- Creates a new 10% tax rate
- Lowers other individual tax rates as follows:

Present	2001-2003	2004-2005	2006-2010
N/A	10%	10%	10%
15%	15%	15%	15%
28%	27%	26%	25%
31%	30%	29%	28%
36%	35%	34%	33%
39.6%	38.6%	37.6%	35%

Phase-Out and Repeal of the Death Tax:

- Phases-out the estate tax beginning in 2002 by eliminating the 5% surtax and the rates in excess of 50% and increasing the exemption to \$1 million
- Continues to phase out the estate tax as follows:

Calendar Year	Exemption	Highest Estate and Gift Tax Rate
2002	\$1 million	50%
2003	\$1 million	49%
2004	\$1.5 million	48%
2005	\$1.5 million	47%
2006	\$2 million	46%
2007	\$2 million	45%
2008	\$2 million	45%
2009	\$3.5 million	45%
2010	N/A (estate tax repealed)	Top Individual Rate (for gift tax)

- Beginning in 2010, the "stepped up" basis for valuation of inherited assets would be replaced with the "carryover basis," thereby imposing a new capital gains tax on the difference between what the deceased paid for assets and current market value. An exemption of \$1.3 million in gained value (\$4.3 million for a surviving spouse) would be allowed.



Expanded Opportunities to Increase Retirement Savings Under the Tax Bill

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Below are some of the highlights of expanded opportunities to increase retirement savings:

IRA Provisions:

- Increases the maximum IRA contribution limits for traditional and Roth IRAs as follows:

Year	Contribution Limit
2002-2004	\$3,000
2005-2007	\$4,000
2008	\$5,000
2009 and thereafter	Indexed for Inflation

- Increases IRA catch-up contribution limits for those age 50 and over by \$500 in 2002 and \$1,000 in 2006

Pension Provisions:

- Increase the annual benefit limit for defined benefit plans to \$160,000
- The early retirement age would be lowered to 62, and the regular retirement age would be lowered to 65 for the purposes of applying the benefit limits.
- The annual contribution limit for defined contribution plans would increase from \$30,000 to \$40,000 this year and thereafter be indexed for inflation in \$1,000 increments.
- The limit on compensation that may be taken into account under a plan would be raised from \$150,000 to \$200,000 and indexed for inflation in \$5,000 increments.
- Annual elective deferrals (under 401(k) plans, 403(b) annuities, and simplified employee pensions) would increase in accordance with the following schedule and be indexed after 2006:

Current Law	\$10,500
2002	\$11,000
2003	\$12,000
2004	\$13,000
2005	\$14,000
2006	\$15,000

- The limit on deferrals to a savings incentive match plan for employees of small employers (SIMPLE) would increase in accordance with the following schedule and be indexed after 2005:

Current Law	\$6,000
2002	\$7,000
2003	\$8,000
2004	\$9,000
2005	\$10,000



The Tax Bill in Perspective

On May 26, Congress passed a tax bill fulfilling President Bush's commitment to reduce taxes for all Americans. Opponents of the measure have argued that the tax relief is "unaffordable." Below are some quick facts about the size of the tax bill:

- The tax bill passed by Congress is smaller as a percentage of government revenue and the economy than the tax cuts proposed by President Kennedy in 1963 and President Reagan in 1981
- The tax bill passed by Congress will reduce revenues by less than 5% versus current law over the next ten years or in other words by less than a nickel for every dollar collected
- Even after passing the tax bill, the surplus will be large enough to
 1. Protect 100% of the Social Security and Medicare Trust Funds
 2. Pay off ALL available publicly held debt over the next ten years
 3. Grow government 4% this year and with inflation over the next ten years
 4. Retain a contingency fund for additional tax relief or additional spending